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Year: 2016

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## Perceiving prospects properly

Steiner, Jakub ; Stewart, Colin

**Abstract:** When an agent chooses between prospects, noise in information processing generates an effect akin to the winner's curse. Statistically unbiased perception systematically overvalues the chosen action because it fails to account for the possibility that noise is responsible for making the preferred action appear to be optimal. The optimal perception pattern exhibits a key feature of prospect theory, namely, overweighting of small probability events (and corresponding underweighting of high probability events). This bias arises to correct for the winner's curse effect.

DOI: <https://doi.org/10.1257/aer.20141141>

Posted at the Zurich Open Repository and Archive, University of Zurich

ZORA URL: <https://doi.org/10.5167/uzh-174509>

Journal Article

Supplemental Material

Originally published at:

Steiner, Jakub; Stewart, Colin (2016). Perceiving prospects properly. *American Economic Review*, 106(7):1601-1631.

DOI: <https://doi.org/10.1257/aer.20141141>

### **Disclosure Statement**

My work on this paper was supported by:

1. A Purkyne Fellowship awarded by the Czech Academy of Sciences,  
and
2. Research Grants 13-34759S and 16-00703S from the Czech Science  
Foundation.

I declare that I have no other relevant material interests relating to this research.

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